

ASSET QUALITY - PAGE 3

GENERAL

Comments should clearly support the component rating assigned asset quality, as well as any Examination Conclusions and Comments (ECC) page comments relating to asset quality. The page heading lists various factors which should be considered in determining the component rating. While these factors may be used as a guide, comments should not necessarily address each factor. Conversely, listed factors are not all-inclusive, and all other relevant issues should be considered. Material conclusions and comments pertaining to asset quality should be detailed here and summarized on the ECC page. Supplemental asset quality pages should be included as needed to support core page comments.

FINANCIAL vs. POLICY COMMENTS

Focus comments on the financial aspects of an institution's asset quality. Address the institution's current underwriting standards and credit administration procedures, as well as any deficiencies and deviations from policies or procedures on the Administration, Supervision, and Control page (Item #1). Nonetheless, there may be situations when these issues should be addressed here. If prior policies, standards, and procedures are a substantial cause of current asset quality conditions, it may be appropriate to address those issues here.

RATIOS

The first three ratios are part of the Uniform Common Core Report of Examination and may not be altered. The bottom three ratios were added to the FDIC Report page. Include other asset quality ratios when appropriate.

Note: When an institution has loan losses and a significantly inadequate ALLL (and thus an ALLL adjustment is made between Tier 1 and Tier 2 Capital), some or all of loans classified Loss will effectively be deducted from Tier 1 Capital. Thus, loan losses will be, to some degree, "double-counted" in the first ratio, Total Adversely Classified Items/Tier 1 Capital + ALLL, as they are included in the numerator and deducted in the denominator. Non-loan losses will always be double-counted since they are included in the numerator and deducted from the denominator. If this distortion is significant or is a cause of confusion, enter "NA" (that is, Not Applicable), and footnote why. In such cases, if desired, include the Total Adversely Classified Items/Total Equity Capital and ALLL ratio as a readily understandable substitute.

ASSET REVIEW DATE

List the asset review date at the beginning of the asset comment, if necessary to bring to the board's or management's attention. Otherwise, include this date with the scope comment in the Confidential-Supervisory Section.

SUMMARY OF ITEMS SUBJECT TO ADVERSE CLASSIFICATION - PAGE 3

GENERAL

Recapitulation - Since further breakdown cannot be added to the adversely classified items summary schedule, a more detailed recapitulation of adversely classified items may be made below the Summary of Items Listed as Special Mention, if appropriate. For example, if desired, detail loan classifications by branch, by officer, and by loan type (for example, commercial, commercial real estate, residential, and consumer).

Classification of Subsidiary Assets - Schedule adversely classified items of consolidated nonbanking subsidiaries with similar assets in the "Consolidated" Summary of Items Subject to Adverse Classification or Summary of Items Listed as Special Mention. Show the gross amount without regard to the institution's investment in such subsidiaries. When including an "Institution Only" summary, limit the amount scheduled to the institution's investment in the nonbanking subsidiary as reflected on the "Institution Only" balance sheet.

Reminder: Evaluate and classify on its own merits the "Institution Only" investment, taking into consideration any classification of its individual items and other relevant factors.

Transfer Risk - Include totals for adverse classification due to transfer risk in a separate asset category after the caption, "Other Assets."

OTHER REAL ESTATE - GENERAL RESERVES

The other real estate balance sheet figure is net of general valuation reserves, and adverse classifications are gross of general valuation reserves. As such, total other real estate classifications may be greater than the amount of other real estate presented on the Comparative Statements of Financial Condition page.

CONTINGENT LIABILITIES

Contingent liabilities subject to adverse classification consist only of Category I contingent liabilities.

SUMMARY OF ITEMS LISTED AS SPECIAL MENTION

In most institutions, items/assets listed as Special Mention will consist only of loans. Since the Special Mention summary schedule consists of only one line, footnote when an item/asset other than loans is special mentioned.

References:

- Loans Section of the Manual
- Securities Section of the Manual
- Other Real Estate and Real Estate Sales Contracts Section of the Manual
- Off-Balance Sheet Lending Activities Section of the Manual
- Contingent Liabilities Section of the Manual
- International Section of the Manual